

**THE OFFICE OF REGULATORY STAFF**  
**DIRECT TESTIMONY AND EXHIBITS**  
**OF**  
**SHARON G. SCOTT**

**MAY 3, 2010**



**DOCKET NO. 2009-489-E**

**Application of South Carolina Electric & Gas  
Company for Increases and Adjustments in  
Electric Rate Schedules and Tariffs**

**DIRECT TESTIMONY OF SHARON G. SCOTT**

**FOR**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2009-489-E**

**IN RE: APPLICATION OF SOUTH CAROLINA ELECTRIC & GAS COMPANY  
FOR INCREASES AND ADJUSTMENTS IN  
ELECTRIC RATE SCHEDULES AND TARIFFS**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

A. My name is Sharon G. Scott. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") as a Senior Manager for Rate Cases.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.**

A. I received a Bachelor of Science in Business Administration, with a major in Accounting from the University of South Carolina in May 1983 and a Master of Business Administration from Webster University in May 2000. I began my career with the Public Service Commission of South Carolina ("Commission") in July 1983 and while employed there, I participated in numerous rate cases and various other filings for electric, gas, telecommunications, water and wastewater utilities. In January 2005, I began my employment with ORS and became manager of Water and Wastewater and Telecommunications Audits. Currently, I am Senior Manager for all rate cases.

**Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?**

A. The purpose of my testimony is to set forth the findings and recommendations resulting from ORS's examination of the application of South Carolina Electric & Gas Company ("Company" or "SCE&G"), in Docket No. 2009-489-E. These findings and recommendations are explained in detail in my testimony and attached exhibits.

**Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE EXAMINATION OF SCE&G'S APPLICATION.**

A. ORS's examination of the Company's application for Adjustments and Increases in Electric Rate Schedules and Tariffs consisted of three major steps. In step one, ORS verified that the operating experience and rate base, reported by the utility in its application, were supported by the Company's accounting books and records for the test year. In the second step ORS tested the underlying transactions in the books and records for the same period to ensure that the transactions were adequately supported, had a stated business purpose, were allowable for ratemaking purposes and were properly recorded. Lastly, our examination consisted of adjusting, as necessary, the revenues, expenditures and capital investments to normalize the Company's operating experience and rate base, in accordance with generally accepted regulatory principles and Commission orders.

**Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.**

A. I have attached the following exhibits to my testimony relating to Total Electric and Retail Electric operations:

- Audit Exhibit SGS-1: Operating Experience, Rate Base and Rate of Return
- Audit Exhibit SGS-2: Explanation of Accounting and Pro Forma Adjustments
- Audit Exhibit SGS-3: Calculation of State and Federal Income Taxes

- Audit Exhibit SGS-4: Deferred Debits/Credits
- Audit Exhibit SGS-5: Working Capital Investment
- Audit Exhibit SGS-6: Weighted Cost of Capital
- Audit Exhibit SGS-7: Computation of Revenue Requirement

These exhibits were either prepared by me or under my direction and supervision in compliance with recognized accounting and regulatory procedures for electric utility rate cases. These exhibits show various aspects of SCE&G's operations and financial position.

**Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT SGS-1 AND ELABORATE ON THE CALCULATIONS.**

A. Audit Exhibit SGS-1 shows SCE&G's operating experience, rate base and rate of return for Total Electric and Retail Electric operations for the test year ended September 30, 2009. Note, that for presentation purposes, all exhibits report dollar amounts in thousands (000's omitted).

Column (1) shows Total Electric Operations, Per Regulatory Books. ORS verified operating revenues of \$2,142,853,000, total operating expenses of \$1,774,613,000 and net income for return of \$368,882,000 to the Company's books and records. ORS verified Total rate base of \$5,249,884,000. Total Per Regulatory Books rate of return of 7.03% was calculated by dividing net income for return by the total rate base.

Column (2) shows ORS proposed accounting and pro forma adjustments designed to normalize operating experience for Total Electric Operations.

Column (3) shows the Company's Total Electric Operations after ORS's accounting and pro forma adjustments by adding columns (1) and (2).

Column (4) reflects the Company's allocation of Total Electric, Per Regulatory Books, to Retail Electric Per Books. Using Retail Electric Per Books, net income for return of \$353,206,000 and total rate base of \$5,103,183,000, a rate of return of 6.92% was computed. The return on common equity was 7.62% as shown on Audit Exhibit SGS-6.

Column (5) shows ORS accounting and pro forma adjustments to Retail Electric Operations. Each adjustment is shown in Audit Exhibit SGS-2 and explained further in the testimonies of ORS's witnesses.

Column (6) shows the Company's Retail Electric Operations after ORS accounting and pro forma adjustments by combining columns (4) and (5). Using net income for return of \$359,977,000 and total rate base of \$4,759,342,000, a rate of return of 7.56% was computed. The return on common equity was 8.83% as shown on Audit Exhibit SGS-6.

Column (7) shows the Company's Proposed Increase along with the resultant tax adjustments for Retail Electric Operations.

Column (8) presents the results of Retail Electric Operations after the Company's proposed increase by combining columns (6) and (7). Using net income for return of \$481,842,000 and total rate base of \$4,759,342,000, a rate of return of 10.12% was computed. The return on common equity was 13.66% as shown on Audit Exhibit SGS-6.

**Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT SGS – 2.**

A. Explanations of the ORS Accounting and Pro forma Adjustments are listed separately as 'SCE&G Total Electric', 'ORS Total Electric' and 'ORS Retail Electric'. The ORS Electric Department verified the retail allocated amounts and reviewed various other adjustments as noted. The adjustments are as follows:

**Electric Operating Revenues:**

Adjustment #1 – Remove Revenue for New Nuclear Generation

ORS and the Company propose to remove revenues of (\$4,771,235) associated with the construction of the new V.C. Summer Units #2 and #3 in Jenkinsville, South Carolina. ORS verified the test year revenue of (\$4,771,235) associated with the new construction to the Company's books and records. The total amount removed is allocated to retail customers.

Adjustment #2 – Wholesale Customer Adjustment

ORS and the Company propose to reduce revenues by (\$16,604,875) for the removal of the City of Greenwood, a wholesale customer. The power supply agreement with the City of Greenwood expired on December 31, 2009. The total amount removed is allocated to wholesale operations.

Adjustment #3 – Storm Damage Reserve Fund

ORS proposes to suspend annual customer contributions of \$6,399,812 to the storm damage reserve fund. The total amount is allocated to retail electric operations. Details of this adjustment are discussed by ORS Electric Department witness Leigh C. Ford.

**Operation and Maintenance Expense – Fuel & Other:**

Adjustment #4 – Annualize Wages and Benefits

The Company proposes to annualize salary expense based on salary levels in effect as of September 30, 2009 and adjust for benefits which include long and short-term disability and 401K expenditures. ORS recalculated and verified the payroll adjustment to the Company's books and records. ORS proposes to allow only those pay increases associated with contract union wages of \$3,379,370. The retail allocated portion is \$3,249,264. ORS



1 expenses were \$15,073,878, resulting in a reduction to health care expenses of (\$107,818).

2 The retail allocated amount is (\$104,575).

3 Adjustment #8 – Remove Expenses for Employee Clubs

4 The Company proposes to remove expenses related to employee clubs, Pine Island, Sand  
5 Dunes, and Misty Lake, which are owned and operated by SCE&G. The expenses for  
6 these clubs, which are not necessary for the provision of electric service and provide no  
7 benefit to the customers, were recomputed and verified to the Company's books and  
8 records. ORS and the Company propose to remove (\$387,954) from test year operating  
9 expenses. The retail allocated amount is (\$377,379).

10 Adjustment #9 - Wateree Environmental, Adjustment #10 – Williams Station Operating  
11 Costs and Adjustment #11 – Williams Station Deferred Expenses

12 These adjustments are discussed in the testimony of ORS Audit Department witness Daniel  
13 F. Sullivan.

14 Adjustment #12 – Annualize Insurance Premiums

15 The Company proposes to increase insurance expenses by annualizing the expense level  
16 during September 2009. ORS reviewed several months in the test year, all of which were  
17 consistent with the September 2009 expense level. Insurance policies, which included  
18 coverage for property, workers' compensation, and other liability coverage, were sampled  
19 for accuracy and monthly premiums examined with no exceptions. ORS and the Company  
20 propose an increase to insurance premiums of \$34,763. The retail allocated amount is  
21 \$33,878.

22 Adjustment #13 – Adjust Storm Insurance Premiums



1 Per Commission Order No. 2007-680, SCE&G was authorized to pay premiums for a  
2 storm insurance policy from funds in the Storm Reserve until the next rate proceeding. In  
3 its application, the Company proposes to include premiums totalling \$3,210,000 for the  
4 policy in test year operating expenses. ORS does not propose to make this adjustment for  
5 reasons discussed in the testimony of ORS Electric Department witness Leigh C. Ford.

6 Adjustment #14 – VCS Refueling Outage Accrual

7 The Company proposes to reflect a decrease of (\$92,593) to the test year outage accrual  
8 expense of \$14,759,259 to reflect the current outage accrual of \$14,666,667. The outage  
9 accrual expenses for the VC Summer Nuclear Plant, of which SCE&G has two-thirds (2/3)  
10 ownership and Santee Cooper one-third (1/3) ownership, is based on an 18-month cycle.  
11 ORS verified the outage accrual and actual expense in the test year. ORS Electric  
12 Department witness A. Randy Watts reviewed the Company's nuclear refueling budget and  
13 recommends a budget of \$28,625,000, which results in an annual outage accrual of  
14 \$12,722,222. ORS proposes to reduce test year expenses by (\$2,037,037) to reflect the  
15 ORS recommended outage accrual. The retail allocated amount is (\$1,940,522).

16 Adjustment #15 – COGEN South Allocation

17 In March 2009, the owner of COGEN South, a bio-mass steam and electric generating  
18 facility, changed its methodology for allocating costs between fuel, lime, and operating and  
19 maintenance expenses. ORS and the Company propose to reduce operating and  
20 maintenance ("O&M") expenses to reflect the costs that would have been charged to fuel  
21 under the new methodology. ORS verified actual cost for the test year of \$12,642,749 and  
22 pro forma cost using the new allocation method of \$10,421,086, which resulted in a  
23 reduction to O&M of (\$2,221,663). The retail allocated amount is (\$2,137,107).

Adjustment #16 – Tree Trimming Costs

The Company proposes an adjustment of \$6,612,809 based on budgeted tree trimming costs of \$19,782,231 compared to the tree trimming amounts in the current rates of \$13,169,422. ORS reviewed per book tree trimming expenses and verified actual expenses included in the test period of \$15,909,402. ORS proposes to set the level for tree trimming expenses at the current level included in rates of \$13,169,422. An adjustment of (\$2,739,980) was computed to reach the current level included in rates. The entire amount is allocated to Retail operations. The explanation of the current level for tree trimming expenses is discussed by ORS Electric Department Witness Leigh C. Ford.

Adjustment #17 – Major Maintenance Expenses

The Company proposes to increase the current major maintenance accrual by \$10,789,611, to reflect an increase in annual major maintenance expenses. ORS proposes an adjustment of \$9,971,870, which reflects annual major maintenance expenses of \$18,435,780 less the amount currently in rates of \$8,463,910. The retail allocated amount is \$9,557,240. ORS Electric Department witness A. Randy Watts will discuss the basis for the annual major maintenance expenses required and the Company's proposed request for carrying cost for under-recovered expenses in the monthly accrual account.

Additionally, the true-up mechanism for the major maintenance accrual was examined by the ORS Audit Department. ORS verified the computation of the carrying cost on the over-recovery of actual expenses and verified the actual balances at December 31, 2009. ORS did not find any material variance between actual and accrued expenses.

Adjustment #18 – Wholesale Customer Adjustment

1       ORS and the Company propose to reduce expenses by (\$10,046,255) for the removal of  
2       City of Greenwood, a wholesale customer. As stated in Adjustment #2, the power supply  
3       agreement with the City of Greenwood expired on December 31, 2009. The total amount  
4       removed is allocated to wholesale operations.

5       Adjustment# - 19 – Adjust for Upflow Modification

6       In Order No. 2007-644, the Company was allowed to defer the cost of upflow  
7       modifications to V.C. Summer Unit #1, to be reviewed in the current case. ORS verified  
8       total deferred charges of \$5,882,067 which the Company proposes to amortize over 10  
9       years. ORS proposes to amortize these expenses over the remaining life of the plant, 32  
10      years, as discussed by the ORS Electric Department witness M. Anthony James. ORS  
11      computed an adjustment of \$183,815. The retail allocated amount is \$174,679.

12      Adjustment # 20 – Amortization of Grid South

13      In Docket No. 2004-178-E, the Company was authorized to amortize costs associated with  
14      its investment in a Regional Transmission Organization, which was later abandoned.  
15      These costs were fully amortized as of December 2009. ORS verified the per book amount  
16      of (\$2,713,691) and also proposes to remove these expenses from the test year. The retail  
17      allocated amount is (\$2,607,423).

18      Adjustment # 21 – Capacity Purchases

19      Per PSC Orders No. 2009-295 and 2008-530, the Company was authorized to defer  
20      capacity purchases for wholesale power sales. Capacity purchases of \$2,960,000 were  
21      verified to the Company's book and records. ORS and the Company propose to amortize  
22      these expenses over 10 years, resulting in an adjustment of \$296,000. The retail allocation  
23      is \$284,708.

Adjustment #22 – Amortize Rate Case Costs

The Company proposes to amortize rate case expenses of \$460,225 over a five-year period. ORS proposes to amortize actual rate case expenses, verified as of April 22, 2010, of \$226,909 over a five-year period, resulting in test year rate case expenses of \$45,382. The total amount is allocated to retail costs.

Adjustment #23 – Amortize Preliminary Survey Investigation (“PSI”) Costs

SCE&G proposes to recover PSI costs over a three-year period. ORS verified the total cost of \$947,829 to the Company books and records and proposes to amortize these expenses over a 10-year period, resulting in an adjustment of \$94,783. The retail allocated amount is \$91,172. ORS Electric Department witness Leigh C. Ford will discuss PSI costs in her testimony.

Adjustment #24 – Amortize Economic Development Grant

On December 29, 2009, Commission Order No. 2009-207 was issued granting the Company approval to defer a \$1,000,000 economic development grant to Barnwell County. The grant was used to attract Crane Company, a vending machine manufacturing company, to relocate, consolidate, and merge with its subsidiary Dixie-Narco, Inc. in Williston, South Carolina. The vending operations of the Dixie-Narco facility is expected to preserve jobs and create new jobs for Barnwell County. The Order approved the deferral and the amortization of the grant to electric operating expenses over the ten-year term of the contract. ORS and the Company propose an adjustment of \$100,000. The retail allocated amount is \$97,270.

Adjustment #25 – Cost Savings for New Facility

1 In October 2009, SCE&G moved employees from the Palmetto Center, the 1401 Main  
2 Street building and the Carolina Research Park to its new campus in Cayce, SC. An  
3 analysis was provided by the Company comparing the cost of the previous leased space to  
4 the cost of operating the new campus. ORS reviewed the analysis and verified the  
5 following information:

- 6 • The new Cayce office building is owned by the SCANA Corporation
- 7 • SCE&G is allocated a portion of the operating costs based on service company  
8 allocators
- 9 • ORS verified and recalculated the costs associated with the analysis, such as  
10 verifying the new tax bills as well as recomputing depreciation expense and interest  
11 costs
- 12 • ORS verified a savings in O&M expenses of \$378,209
- 13 • ORS verified a savings in capital costs of \$216,142

14 ORS therefore proposes to reduce operating and maintenance expenses by (\$378,209) to  
15 reflect a cost saving for the new facility. The retail allocated amount is (\$368,111). ORS  
16 also proposes to reduce capital expenditures by (\$216,142) as shown in Adjustment #54.

17 Adjustment #26 – Remove Non-allowable Expenses

18 ORS proposes to decrease O&M expenses for items considered non-allowable for  
19 ratemaking purposes. These expenses include donations, lobbying expenses, alcoholic  
20 beverages, service awards, advertising, certain aircraft expenses, one-half of Chamber of  
21 Commerce dues and other miscellaneous items. ORS considers these items non-allowable  
22 as they are not necessary to provide electric service. Additionally, during our review of  
23 non-allowable expenses, ORS did not find any contributions made to political campaigns.

1 ORS proposes to remove non-allowable expenses of (\$1,584,973). The SC Retail allocated  
2 amount is (\$1,543,764).

3 Adjustment #27 – Remove Abandoned Projects

4 ORS proposes to remove abandoned projects charged to operating expenses as such  
5 projects were not beneficial to the ratepayer. The abandoned projects included such  
6 projects as Urquhart Security, Integral Missile Shield, Flow Transmit, SAL Oil/Water  
7 Separator, Fuel Oil Unloading Catch Basin and FW Venturi Replacement. ORS removed  
8 (\$105,094) from operating expenses. The retail allocated amount is (\$102,362).

9 Depreciation and Amortization Expense

10 Adjustment #28 – Remove Employee Clubs

11 The Company proposes to remove depreciation expense related to employee clubs, Pine  
12 Island, Sand Dunes, and Misty Lake, which are owned and operated by SCE&G. The  
13 expenses for these clubs, which are not necessary for the provision of electric service and  
14 provide no benefit to the customers, were recomputed and verified to the Company's books  
15 and records. ORS and the Company propose to remove (\$179,944) from test year  
16 operating expenses. The retail allocated amount is (\$175,273).

17 Adjustment #29 – Recognize Property Additions – Additional CWIP - Depreciation  
18 Expense

19 SCE&G proposes an adjustment to include depreciation expenses for plant additions  
20 completed as of November 2009. ORS examined the various work orders and verified  
21 that the projects were complete and work orders closed. ORS recomputed the  
22 depreciation expense using depreciation rates recommended by the ORS Electric

1 Department. ORS and the Company propose to increase depreciation expense by  
2 \$643,116. The retail allocated amount is \$623,187.

3 Adjustment #30 – Annualize Depreciation Expense

4 SCE&G proposes an adjustment of \$2,019,941 to annualize depreciation expense using  
5 current depreciation rates and test year plant balances. In lieu of this adjustment, ORS  
6 proposes to adjust depreciation expense using the new depreciation rates and test year  
7 plant balances in adjustment #31.

8 Adjustment #31 – Change in Depreciation Rates

9 The Company proposes to adjust for the change in depreciation rates in accordance with  
10 the recent depreciation study which was reviewed by the ORS Electric Department. ORS  
11 verified the test year depreciable base for the new rates. ORS computed a reduction to  
12 depreciation expense of (\$13,474,534). The retail allocated amount was a reduction of  
13 (\$13,182,529).

14 Adjustment #32- Depreciation Expense -Cope, Adjustment #33 Depreciation Expense -  
15 Peaking Turbines, Adjustment #34 – Deferral – Peaking Turbines, Adjustment #35 –  
16 Depreciation Expense – Wateree Environmental, Adjustment #36 Wateree  
17 Environmental Deferred Expenses

18 These adjustments are discussed in the testimony of ORS Audit Department witness Daniel  
19 F. Sullivan.

20 Taxes Other Than Income

21 Adjustment #37 – Annualize Payroll Taxes

1 The Company proposes to adjust for payroll taxes associated with the payroll increase.  
2 ORS adjusted for payroll taxes associated with wage increases, for union employees only,  
3 of \$239,860. The retail allocated portion is \$230,626.

4 Adjustment #38 – Payroll Taxes – Incentive Pay

5 SCE&G proposes to remove 50% of the payroll taxes accrued for electric bonuses. Since  
6 ORS proposes to remove all incentive pay, an adjustment is made to remove total accrued  
7 payroll taxes of (\$1,050,472). The retail allocation amount is (\$1,021,374).

8 Adjustment #39 – Remove Taxes for New Nuclear Generation

9 The Company proposes to remove taxes associated with the construction of the new V.C.  
10 Summer Units #2 and #3 in Jenkinsville, South Carolina. ORS verified the gross receipts  
11 and ORS/Commission assessments and proposes a reduction of (\$21,757) for taxes  
12 associated with the removal of new nuclear construction. The total amount is allocated to  
13 retail customers.

14 Adjustment #40 – Property Taxes

15 The Company proposes an adjustment of \$5,456,574 to annualize the impact on the  
16 Company's property taxes by applying the average millage rate to additions to plant in  
17 service. ORS verified and recomputed property taxes based on net plant in service at the  
18 end of the test year and ORS proposed pro forma plant additions. ORS proposes to  
19 increase property tax expenses by \$4,321,714. The retail allocated amount is \$4,211,510.

20 Adjustment #41 – Wholesale Customer Adjustment

21 The Company proposes to remove gross receipts and ORS/Commission assessments to  
22 reflect the removal of the City of Greenwood, a wholesale customer. As stated in  
23 Adjustment #2, the power supply agreement with the City of Greenwood expired on



1 December 31, 2009. ORS and the Company propose to reduce taxes other than income by  
2 (\$75,718) for total electric operations. The entire amount is allocated to wholesale  
3 operations.

4 Adjustment #42 – Gross Receipts Taxes - Storm Damage Reserve

5 ORS proposes to include gross receipts and ORS/Commission assessment taxes associated  
6 with the revenue due to the suspension of the customer contributions to the storm reserve  
7 fund. ORS proposes an adjustment of \$28,971, using the increase in revenue of \$6,399,812  
8 and the most recent gross receipts factor of .004527. The total amount is allocated to retail  
9 operations.

10 Income Taxes

11 Adjustment #43 – Economic Impact Zone Tax Credits (EIZ)

12 SCE&G qualifies for Economic Impact Zone (“EIZ”) Tax Credits for construction of  
13 electric production facilities in designated South Carolina counties. The Company was  
14 previously in litigation with the SC Department of Revenue regarding qualification of  
15 certain facilities and timing and use of the credits generated. Recently, the case was  
16 resolved and the Company received a tax refund for EIZ tax credits. SCE&G proposes to  
17 pass these credits to the customers as a reduction to income taxes. Additionally, the  
18 Company proposes to change the method to flow-through the credits annually to the  
19 customer instead of returning the credits over the life of the assets. ORS proposes to flow  
20 the credits to the customers over a 2-year period instead of the 5-year period proposed by  
21 the Company. ORS Electric Department witness A. Randy Watts will discuss the  
22 amortization period for the tax credits. ORS computed an adjustment of (\$16,575,698)  
23 which includes the pass-through of EIZ tax credits, net of taxes, of (\$15,437,500) and the

1 net effect of a yearly flow-through of the credit of (\$1,138,198). The retail allocated  
2 amount is (\$16,153,018).

3 Adjustment #44 – Tax Effect of Annualized Interest

4 ORS and the Company propose to reflect the impact on state and federal income taxes of  
5 annualized interest associated with the pro forma adjustments to rate base. Using the  
6 change in rate base for pro forma adjustments, ORS computed the impact on state and  
7 federal income taxes using the long-term debt ratio of 47.04% and cost of debt of 6.14%.

8 Adjustment #45 – Income Taxes This adjustment reflects the effects of the  
9 accounting and pro forma adjustments on the Company's state and federal income taxes.

10 ORS's computation is shown in Audit Exhibit SGS-3.

11 Customer Growth

12 Adjustment #46 – Compute Customer Growth

13 This adjustment reflects customer growth for Total Electric and Retail Electric operations.  
14 Per book growth factors were used for the Total Electric operations. The customer growth  
15 factor of .003412 for Retail Electric operations was provided by ORS Electric Department  
16 witness A. Randy Watts. Retail Electric customer growth was computed using net income  
17 for return and the customer growth factor.

18 Interest on Customer Deposits

19 Adjustment #47 – Annualize Interest on Customer Deposits – ORS proposes to annualize  
20 interest on customers' deposits using the Commission approved interest rate of 3.5% and  
21 the year-end customer deposits of \$35,549,802 of which 79.39% is allocated to electric  
22 operations, for a total amount of \$987,804. ORS computed total after tax electric interest on  
23 customer deposits of \$609,969 which results in an adjustment to increase per book after tax

1 interest of \$588,065 by (\$21,904). Total interest on customer deposits is allocated to retail  
2 customers.

3 **Plant in Service**

4 **Adjustment #48 – Remove Plant for Employee Clubs**

5 The Company proposes to remove plant in service related to employee clubs, Pine Island,  
6 Sand Dunes, and Misty Lake, which are owned and operated by SCE&G. The plant in  
7 service associated with these clubs, which are not necessary for the provision of electric  
8 service and provide no benefit to the customer, were verified to the Company's books and  
9 records. ORS and the Company propose to remove (\$4,828,633) from test year plant in  
10 service. The retail allocated amount is (\$4,703,043).

11 **Adjustment #49 - Property Retirements**

12 The Company proposes to reduce Plant in Service by (\$4,347,891) to reflect pro forma  
13 retirements of Steam Production, Nuclear Production, Other Production, Transmission and  
14 Common Plant as of September 30, 2009. ORS verified retirements to the Company's  
15 books and records and found an overstatement of retirements by \$356,814. ORS, therefore,  
16 proposes an adjustment of (\$3,991,077). The retail allocated amount is (\$3,838,968).

17 **Adjustment #50 – CWIP Closed to Plant**

18 The Company proposes to increase plant in service by \$12,728,445 for property additions  
19 and for carrying costs on the remaining unrecovered plant associated with the Saluda River  
20 back-up dam. The synthetic fuel credits, which funded the majority of the cost of the  
21 Saluda River back-up dam, expired in 2004. ORS verified the plant additions to the  
22 Company's books and records and recomputed the carrying costs. The Company proposed  
23 phased in rates and computed carrying costs on the unrecovered Saluda River back-up dam

1 cost through December 2010. ORS proposes an adjustment to remove carrying costs of  
2 (\$2,472,000) to reflect the level of carrying costs through the final order date of July 2010.  
3 ORS proposes an adjustment of \$10,256,455. The retail allocated amount is \$10,082,371.

4 Adjustment #51 – Recognize Property Additions

5 SCE&G proposes to adjust plant in service for additions completed as of November  
6 2009. ORS reviewed the various work orders and verified the projects were complete and  
7 work orders closed. ORS and the Company propose an adjustment to increase plant in  
8 service by \$17,083,088. The retail allocated amount is \$16,563,201

9 Adjustment # 52 – Peaking Turbines and Adjustment #53 – Wateree Environmental  
10 CWIP.

11 These adjustments are discussed in the testimony of ORS Audit Department witness Daniel  
12 F. Sullivan.

13 Adjustment #54 – Reduce Capital Expenditure for New Facility

14 Based on ORS's examination of the new facility costs, as explained in Adjustment #25, a  
15 percentage of the savings are allocated to reduce capital investment. ORS proposes a  
16 reduction of (\$216,142) for capital cost savings related to the new facility. The retail  
17 allocated amount is (\$210,522).

18 Accumulated Depreciation

19 Adjustment #55 – Remove Employee Clubs

20 The adjustment removes accumulated depreciation related to employee clubs, Pine Island,  
21 Sand Dunes, and Misty Lake, which are owned and operated by SCE&G. The  
22 accumulated depreciation was verified to the Company's books and records. ORS and the

Company propose to remove (\$1,434,609) from the test year. The retail allocated amount is (\$1,397,298).

Adjustment #56 - Property Retirements

This adjustment reflects the accumulated depreciation associated with the property retirements in Adjustment #49 of Steam Production, Nuclear Production, Other Production, Transmission and Common Plant as of September 30, 2009. ORS proposes an adjustment of (\$3,991,077). The retail allocated amount is (\$3,838,968).

Adjustment #57 – Recognize Property Additions

This adjustment reflects the accumulated depreciation for property additions as described in Adjustment #29. ORS proposes an adjustment of \$643,116. The retail allocated amount is \$623,187.

Adjustment #58 – Annualize Depreciation Expense

SCE&G proposes an adjustment of \$2,019,941 to accumulated depreciation expense to reflect annualized depreciation expense. In lieu of this adjustment, ORS proposes to adjust accumulated depreciation expense in adjustment #59.

Adjustment #59 – Change in Depreciation Rates

The adjustment reflects the accumulated depreciation associated with ORS adjustment #31 to reflect the new depreciation rates. ORS computed a reduction to accumulated depreciation expense of (\$13,474,534). The retail allocated amount is a reduction of (\$13,182,529).

Adjustment #60 – Cope SCR, Adjustment #61 – Peaking Turbines, Adjustment #62 – Wateree Environmental CWIP

1 These adjustments are discussed in the testimony of ORS Audit Department witness Daniel  
2 F. Sullivan.

3 **Construction Work in Progress (CWIP)**

4 **Adjustment #63 –Remove CWIP for New Nuclear Generation**

5 The Company proposes to remove CWIP associated with the construction of the new V.C.  
6 Summer Units #2 and #3 in Jenkinsville, South Carolina. ORS verified the test year CWIP  
7 associated with new construction to the Company's books and records. Both the Company  
8 and ORS propose to remove (\$388,203,321) for new nuclear construction. The total  
9 amount allocated to retail customers is (\$373,432,184).

10 **Adjustment #64 – CWIP Closed to Plant**

11 The Company proposes to remove completed projects from CWIP and move to plant in  
12 service. ORS verified the plant additions to the Company's books and records. ORS and  
13 the Company propose to reduce CWIP by (\$5,870,660) and move these costs to plant in  
14 service. The retail allocated amount is (\$5,862,709).

15 **Adjustment #65 – Recognize Property Additions**

16 SCE&G proposes to remove from CWIP, projects completed at the end of the test year.  
17 ORS verified total projects completed at September 30, 2009 of (\$16,956,898) and both  
18 the Company and ORS propose to remove this amount from CWIP. The retail allocated  
19 amount is (\$16,462,413.)

20 **Adjustment #66 – Wateree Environmental in CWIP**

21 This adjustment is discussed in the testimony of ORS Audit Department witness Daniel F.  
22 Sullivan.

23 **Deferred Debits and Credits**

Adjustment #67 – Storm Damage Reserve

ORS proposes to increase the storm damage reserve for the overfunding of the storm insurance premiums. ORS proposes an adjustment of (\$407,394) to reflect the total premium cost over the \$2.7 million allowed per year according to Order No. 2007-680. The total amount is allocated to retail operations. See Audit Exhibit SGS – 4.

Working Capital

Adjustment # 68 – Working Capital Investment

ORS and the Company propose to adjust working capital for accounting and pro forma adjustments to operating and maintenance expenses as set forth in Audit Exhibit SGS-5. Additionally, ORS proposes to adjust for the following:

(1) Increase the amount of Customer Deposits removed by the annualized amount of (\$35,473), the difference in customer deposits before taxes (\$987,805 - \$952,332). The total amount is allocated to retail.

(2) Reduce working capital funds to be collected in advance of refueling Cycle 19, based on the ORS recommended budget of \$28,625,000. To reflect the collection of this amount over an 18-month period, ORS used average costs of \$14,312,500 (\$28,625,000/2) at SCE&G's 2/3 ownership, for a resulting expense level of \$9,541,667. An expense amount of \$6,792,500 is computed after taxes less per book working capital of \$5,891,979, produces an adjustment of \$900,521. The retail allocated amount is \$857,476.

(3) Remove unclaimed funds of (\$488,176) from working capital since the Company has use of these funds until escheated to the state. The total amount is allocated to retail operations.

Materials and Supplies

Adjustment #69 – Fuel Stock Inventory

The Company proposes to adjust for an increase in coal inventory of \$26,615,328. ORS proposes to reduce inventory levels by (\$25,887,815). The retail allocated amount is (\$24,600,593). Details of the inventory adjustment are provided by ORS Electric Department witness Leigh C. Ford.

Operating Revenues - Retail Operations

Adjustment # 70 – Proposed Increase

This adjustment shows the effects of the Company's proposed revenue increase for retail operations.

General Taxes

Adjustment #71 – Taxes Other Than Income for Proposed Increase

This adjustment shows the effects of the proposed increase on gross receipts and ORS/Commission utility assessment taxes.

Income Taxes

Adjustment #72 – State and Federal Income Taxes for Proposed Increase

This adjustment shows the effects of the proposed increase on state income taxes (5%) and federal income taxes (35%). See Audit Exhibit SGS-3.

Customer Growth

Adjustment #73 – Adjust Customer Growth for the Proposed Increase

This adjustment accounts for the customer growth associated with the proposed increase using the customer growth factor of .003412 as provided by ORS Electric Department witness A. Randy Watts.



1   **Q.    ARE YOU AWARE OF THE STIPULATION BETWEEN ORS AND THE**  
2       **COMPANY IN REGARDS TO THE RETURN ON EQUITY?**

3   **A.           Yes, I am.**

4   **Q.    PLEASE EXPLAIN THE IMPACT ON THE REVENUE REQUIREMENT OF**  
5       **THIS STIPULATION.**

6   **A.           As shown on Audit Exhibit SGS-7, the stipulation of the return on equity of 10.7%**  
7       **would result in a revenue requirement of \$76.9 million. ORS Electric Department witness**  
8       **A. Randy Watts will discuss, as stipulated, a reduction to this revenue requirement for a**  
9       **\$25 million adjustment reflecting abnormal weather.**

10 **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

11 **A.           Yes, it does.**

**South Carolina Electric & Gas Company**  
**Operating Experience, Rate Base and Rate of Return**  
**Total and Retail Electric**  
**For the Test Year Ended September 30, 2009**  
**Docket No. 2009-489-E**

(000's Omitted)

Line No.	Description	TOTAL ELECTRIC			RETAIL ELECTRIC				
		(1) Per Regulatory Books	(2) ORS Accounting & Pro Forma Adjustments	(3) After ORS Accounting & Pro Forma Adjustments	(4) Retail Per Books	(5) ORS Accounting & Pro Forma Adjustments	(6) After ORS Accounting & Pro Forma Adjustments	(7) Company's Proposed Increase	(8) After Company's Proposed Increase
1	<b>Operating Revenues</b>	\$ 2,142,853	(14,976) (A)	2,127,877	2,058,819	1,629 (A)	2,060,448	197,575 (O)	2,258,023
2	<b>Operating Expenses:</b>								
3	O&M Expenses - Fuel	802,592	0 (B)	802,592	762,850	0 (B)	762,850	0	762,850
4	O&M Expenses - Other	467,769	6,163 (C)	473,932	454,836	15,271 (C)	470,107	0	470,107
5	Depreciation & Amort. Expenses	244,109	(8,118) (D)	235,991	237,548	(8,028) (D)	229,520	0	229,520
6	Taxes Other Than Income	138,977	3,443 (E)	142,420	134,973	3,429 (E)	138,402	894 (P)	139,296
7	Total Income Taxes	121,166	(18,906) (F)	102,260	116,021	(15,813) (F)	100,208	75,230 (Q)	175,438
8	<b>Total Operating Expenses</b>	<u>1,774,613</u>	<u>(17,418)</u>	<u>1,757,195</u>	<u>1,706,228</u>	<u>(5,141)</u>	<u>1,701,087</u>	<u>76,124</u>	<u>1,777,211</u>
9	Operating Return	368,240	2,442	370,682	352,591	6,770	359,361	121,451	480,812
10	Customer Growth	1,230	8 (G)	1,238	1,203	23 (G)	1,226	414 (R)	1,640
11	Int.on Cust. Deposits (Net of Taxes)	(588)	(22) (H)	(610)	(588)	(22) (H)	(610)	0	(610)
12	<b>Net Income for Return</b>	<u>368,882</u>	<u>2,428</u>	<u>371,310</u>	<u>353,206</u>	<u>6,771</u>	<u>359,977</u>	<u>121,865</u>	<u>481,842</u>
13	<b>Rate Base:</b>								
14	Gross Plant in Service	7,762,108	60,715 (I)	7,822,823	7,564,419	58,690 (I)	7,623,109	0	7,623,109
15	Less: Reserve for Depreciation	<u>2,929,422</u>	<u>(13,364) (J)</u>	<u>2,916,058</u>	<u>2,849,416</u>	<u>(13,089) (J)</u>	<u>2,836,327</u>	<u>0</u>	<u>2,836,327</u>
16	Net Plant in Service	4,832,686	74,079	4,906,765	4,715,003	71,779	4,786,782	0	4,786,782
17	Construction Work in Progress	849,470	(404,496) (K)	444,974	819,213	(389,471) (K)	429,742	0	429,742
18	Deferred Debits/Credits	(114,140)	(407) (L)	(114,547)	(111,841)	(407) (L)	(112,248)	0	(112,248)
19	Total Working Capital	59,956	(2,372) (M)	57,584	55,773	(1,141) (M)	54,632	0	54,632
20	Materials & Supplies	310,805	(25,888) (N)	284,917	297,681	(24,601) (N)	273,080	0	273,080
21	Accumulated Deferred Income Taxes	(688,893)	0	(688,893)	(672,646)	0	(672,646)	0	(672,646)
22	<b>Total Rate Base</b>	<u>\$ 5,249,884</u>	<u>(359,084)</u>	<u>4,890,800</u>	<u>5,103,183</u>	<u>(343,841)</u>	<u>4,759,342</u>	<u>0</u>	<u>4,759,342</u>
23	<b>Rate of Return</b>	<u>7.03%</u>		<u>7.59%</u>	<u>6.92%</u>		<u>7.56%</u>		<u>10.12%</u>
24	<b>Return on Common Equity</b>				<u>7.62%</u>		<u>8.83%</u>		<u>13.66%</u>

South Carolina Electric & Gas Company  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended September 30, 2009  
Docket No. 2009-489-E  
(000's Omitted)

Adj.# Per App.	Adj.# Per ORS (A)	Description	SCE&G Total Electric	ORS Total Electric	ORS Retail Electric
		<u>Operating Revenues</u>			
7	1	Remove amounts associated with the new nuclear generation	\$ (4,771)	(4,771)	(4,771)
26	2	Remove revenue for the Wholesale Customer Adjustment	(16,605)	(16,605)	0
	3	Adjust for suspension of Storm Reserve Fund	0	6,400	6,400
		<u>Total Operating Revenues</u>	<u>\$ (21,376)</u>	<u>(14,976)</u>	<u>1,629</u>
		<u>(B &amp; C) Operating and Maintenance Expense - Fuel &amp; Other</u>			
1	4	Annualize wages and benefits	\$ 7,126	3,379	3,249
2	5	Remove incentive pay	(8,205)	(16,410)	(15,992)
3	6	Remove per book pension income	3,526	3,526	3,429
4	7	Adjust health care costs	1,010	(108)	(105)
5	8	Remove operating expenses related to employee clubs	(388)	(388)	(377)
15	9	Adjust for Wateree Environmental costs	3,149	0	0
17	10	Adjust for Williams Station Environmental operating costs	28,993	26,981	25,950
18	11	Amortize Williams Station deferred expenses	2,899	283	272
20	12	Annualize insurance expense premiums	35	35	34
21	13	Adjust for storm insurance premiums	3,210	0	0
22	14	Adjust for the V.C. Summer (VCS) nuclear refueling outage accrual	(93)	(2,037)	(1,941)
23	15	Adjust for the COGEN South Allocation	(2,222)	(2,222)	(2,137)
24	16	Adjust for tree trimming costs	6,613	(2,740)	(2,740)
25	17	Adjust for major maintenance expenses	10,790	9,972	9,557
26	18	Adjust for wholesale customer	(10,046)	(10,046)	0
29	19	Amortize Upflow Modification	588	184	175
30	20	Adjust for full Amortization of Grid South	(2,714)	(2,714)	(2,607)
31	21	Amortize Capacity Purchases over 10 years	296	296	285
32	22	Amortize Rate Case Expenses	92	45	45
33	23	Amortize Preliminary Survey Investigation (PSI) costs	315	95	91
34	24	Amortize Economic Development Costs	100	100	97
	25	Adjust operating and maintenance to reflect cost savings for the new facility	0	(378)	(368)
	26	Remove expenses considered non-allowable for ratemaking	0	(1,585)	(1,544)

South Carolina Electric & Gas Company  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended September 30, 2009  
Docket No. 2009-489-E  
(000's Omitted)

Adj.# Per App.	Adj.# Per ORS	Description	SCE&G Total Electric	ORS Total Electric	ORS Retail Electric
	27	Remove write-off of Abandoned Projects not used and useful	0	(105)	(102)
		<b><u>Total Operating and Maintenance Expenses</u></b>	<b>\$ 45,074</b>	<b>6,163</b>	<b>15,271</b>
	(B)	<b><u>Total Operating and Maintenance Expense - Fuel</u></b>	<b>\$ (8,476)</b>	<b>0</b>	<b>0</b>
	(C)	<b><u>Total Operating and Maintenance Expense - Other</u></b>	<b>\$ 53,550</b>	<b>6,163</b>	<b>15,271</b>
	(D)	<b><u>Depreciation and Amortization Expense</u></b>			
5	28	Remove depreciation expense related to employee clubs	\$ (180)	(180)	(175)
9	29	Recognize depreciation for additional CWIP plant additions	643	643	623
10	30	Annualize depreciation based on current rates	2,019	0	0
11	31	Annualize for the effect of the new depreciation study	(13,441)	(13,475)	(13,183)
12	32	Include depreciation expense for Cope SCR	2,922	2,922	2,810
13	33	Include depreciation expense for Peaking Turbines	2,076	1,972	1,897
14	34	Amortize deferral of Peaking Turbines	208	0	0
15	35	Adjust for depreciation of Wateree Environmental Plant	11,992	0	0
16	36	Amortize Wateree Environmental deferred expenses	1,514	0	0
		<b><u>Total Depreciation and Amortization Expense</u></b>	<b>\$ 7,753</b>	<b>(8,118)</b>	<b>(8,028)</b>
	(E)	<b><u>Taxes Other Than Income</u></b>			
1	37	Annualize payroll taxes for wages and benefits	\$ 506	240	231
2	38	Adjust payroll taxes related to incentive pay	(525)	(1,050)	(1,021)
7	39	Remove other taxes associated with new nuclear generation	(22)	(22)	(22)
19	40	Annualize property tax expense for pro forma plant additions	5,457	4,322	4,212
26	41	Adjust for other taxes associated with the wholesale customer	(76)	(76)	0
	42	Adjust for gross receipts taxes associated with suspension of the Storm Reserve Fund	0	29	29
		<b><u>Total Taxes Other Than Income</u></b>	<b>\$ 5,340</b>	<b>3,443</b>	<b>3,429</b>
	(F)	<b><u>Income Taxes</u></b>			
28	43	Adjust for Economic Impact Zone credits for state and federal taxes	\$ (7,313)	(16,576)	(16,153)
35	44	Tax Effect of Annualized Interest	3,252	3,967	3,799
	45	Adjust for the effect of pro forma adjustments on state and federal income taxes. See Audit Exhibit SGS-3.	(30,427)	(6,297)	(3,459)
		<b><u>Total Income Tax Adjustments</u></b>	<b>\$ (34,488)</b>	<b>(18,906)</b>	<b>(15,813)</b>

South Carolina Electric & Gas Company  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended September 30, 2009  
Docket No. 2009-489-E  
(000's Omitted)

Adj.# Per App.	Adj.# Per ORS	Description	SCE&G Total Electric	ORS Total Electric	ORS Retail Electric
<b>(G) Customer Growth</b>					
46		Adjust customer growth for total and retail electric operations related to the accounting and pro forma adjustments.	\$ (162)	8	23
		<b>Total Customer Growth</b>	<b>\$ (162)</b>	<b>8</b>	<b>23</b>
<b>(H) Interest on Customer Deposits</b>					
47		Annualize interest on customer deposits (net of taxes)	\$ 0	(22)	(22)
		<b>Total Interest on Customer Deposits</b>	<b>\$ 0</b>	<b>(22)</b>	<b>(22)</b>
<b>(I) Plant in Service</b>					
5	48	Remove employee clubs	\$ (4,829)	(4,829)	(4,703)
6	49	Recognize property retirements	(4,348)	(3,991)	(3,839)
8	50	Adjust for CWIP closed to plant in service	12,728	10,256	10,082
9	51	Adjust for additional CWIP closed to plant after test year	17,083	17,083	16,563
13	52	Increase plant in service for peaking turbines	44,653	42,412	40,798
15	53	Adjust for Wateree Environmental CWIP	283,378	0	0
	54	Remove capital expenditure savings associated with the new facility	0	(216)	(211)
		<b>Total Plant in Service</b>	<b>\$ 348,665</b>	<b>60,715</b>	<b>58,690</b>
<b>(J) Accumulated Depreciation</b>					
5	55	Remove employee clubs	\$ (1,435)	(1,435)	(1,397)
6	56	Recognize property retirements	(4,348)	(3,991)	(3,839)
9	57	Recognize additions for additional CWIP	643	643	623
10	58	Annualize depreciation based on current rates	2,020	0	0
11	59	Annualize the effect of the new depreciation study	(13,440)	(13,475)	(13,183)
12	60	Adjust for depreciation expense for Cope SCR	2,922	2,922	2,810
13	61	Adjust for depreciation associated with Peaking Turbines	2,076	1,972	1,897
15	62	Adjust for Wateree Environmental CWIP	11,992	0	0
		<b>Total Accumulated Depreciation</b>	<b>\$ 430</b>	<b>(13,364)</b>	<b>(13,089)</b>

South Carolina Electric & Gas Company  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended September 30, 2009  
Docket No. 2009-489-E  
(000's Omitted)

Adj.# Per App.	Adj.# Per ORS	Description	SCE&G Total Electric	ORS Total Electric	ORS Retail Electric
	(K)	<b><u>Construction Work in Progress (CWIP)</u></b>			
7	63	Remove CWIP associated with new nuclear generation	\$ (388,203)	(388,203)	(373,432)
8	64	Decrease CWIP for property additions closed to plant in service	(5,871)	(5,871)	(5,863)
9	65	Decrease CWIP for additional property closed to plant in service	(16,957)	(16,957)	(16,462)
15	66	Adjust for Wateree Environmental in CWIP	(259,693)	6,535	6,286
		<b><u>Total Construction Work in Progress (CWIP)</u></b>	<b><u>\$ (670,724)</u></b>	<b><u>(404,496)</u></b>	<b><u>(389,471)</u></b>
	(L)	<b><u>Deferred Debits/Credits</u></b>			
67		Adjust the storm damage reserve for payment of excess storm damage premiums. See Audit Exhibit SGS-4.	\$ 0	(407)	(407)
		<b><u>Total Deferred Debits/Credits</u></b>	<b><u>\$ 0</u></b>	<b><u>(407)</u></b>	<b><u>(407)</u></b>
	(M)	<b><u>Working Capital</u></b>			
68		Adjust working capital for pro forma adjustments, customer deposits, nuclear refueling, and unclaimed funds. - See Audit Exhibit SGS-5.	\$ 1,501	(2,372)	(1,141)
		<b><u>Total Working Capital</u></b>	<b><u>\$ 1,501</u></b>	<b><u>(2,372)</u></b>	<b><u>(1,141)</u></b>
	(N)	<b><u>Materials and Supplies</u></b>			
27	69	Adjust fuel inventory to reflect recommended levels	26,615	(25,888)	(24,601)
		<b><u>Total Material and Supplies</u></b>	<b><u>26,615</u></b>	<b><u>(25,888)</u></b>	<b><u>(24,601)</u></b>

South Carolina Electric & Gas Company  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended September 30, 2009  
Docket No. 2009-489-E  
(000's Omitted)

Adj.# Per App.	Adj.# Per ORS	Description	Company's Proposed Increase
		<b>(O) <u>Operating Revenues for Proposed Increase - Per SCE&amp;G Application</u></b>	
	70	To adjust revenues for the proposed increase	\$ 197,575
		<b><u>Total for Proposed Increase</u></b>	<b>\$ 197,575</b>
		<b>(P) <u>Taxes Other Than Income</u></b>	
	71	To adjust for most recent gross receipts tax for the proposed increase	\$ 894
		<b><u>Total Taxes Other Than Income</u></b>	<b>\$ 894</b>
		<b>(Q) <u>Income Taxes for Proposed Increase</u></b>	
	72	To adjust state (5%) and federal income (35%) taxes for the proposed increase. See Audit Exhibit SGS-3.	\$ 75,230
		<b><u>Total Income Taxes for Proposed Increase</u></b>	<b>\$ 75,230</b>
		<b>(R) <u>Customer Growth</u></b>	
	73	To adjust customer growth (.003412) for adjustments to operating revenues and expenses related to the proposed increase	\$ 414
		<b><u>Total Customer Growth for Proposed Increase</u></b>	<b>\$ 414</b>

**South Carolina Electric & Gas Company**  
**Calculation of State and Federal Income Taxes**  
**For the Test Year Ended September 30, 2009**  
**Docket No. 2009-489-E**  
**(000's Omitted)**

**FOR ACCOUNTING AND PRO FORMA ADJUSTMENTS**

	<b>ORS Total Accounting &amp; Pro Forma Adjustments</b>	<b>ORS Retail Accounting &amp; Pro Forma Adjustments</b>
Operating Revenues	\$ (14,976)	\$ 1,629
Less:		
O&M Expenses - Fuel	0	0
O&M Expenses - Other	6,163	15,271
Dep. & Amort. Expenses	(8,118)	(8,028)
Taxes Other Than Income	3,443	3,429
Net Accounting and Pro forma Adjustments	<u>(16,464)</u>	<u>(9,043)</u>
Less: State Taxes @ 5%	<u>(823)</u>	<u>(452)</u>
Federal Taxable Income	(15,641)	(8,591)
Federal Taxes @ 35%	<u>(5,474)</u>	<u>(3,007)</u>
Total State and Federal Income Tax Adjustment - ORS Adjustment #45	<u><u>\$ (6,297)</u></u>	<u><u>\$ (3,459)</u></u>

**FOR PROPOSED INCREASE ADJUSTMENTS**

Operating Revenues	\$ 197,575
Less:	
O&M Expenses - Fuel	0
O&M Expenses - Other	0
Dep. & Amort. Expenses	0
Taxes Other Than Income	894
Net Accounting and Pro forma Adjustments	<u>196,681</u>
State Taxes @ 5%	<u>9,834</u>
Federal Taxable Income	186,847
Federal Taxes @ 35%	<u>65,396</u>
Total State and Federal Income Tax Adjustments - ORS Adjustment #72	<u><u>\$ 75,230</u></u>



**South Carolina Electric & Gas Company**  
**Deferred Debits/Credits**  
**Test Year Ended September 30, 2009**  
**Docket No. 2009-489-E**  
**(000's Omitted)**

	<u>Regulatory Per Books</u>	<u>ORS Accounting &amp; Pro Forma Adjustments</u>	<u>After Accounting &amp; Pro Forma Adjustments</u>	<u>Allocated to Retail</u>
Other Post Employment Benefits	\$ (81,893)	\$ 0	\$ (81,893)	\$ (79,625)
Deferred Environmental Costs	(232)	0	(232)	(226)
Storm Damage Reserve	(31,289)	(407)	(31,696)	(31,707)
Major Maintenance Accrual	<u>(726)</u>	<u>0</u>	<u>(726)</u>	<u>(690)</u>
<b>Total - ORS</b>	<b><u>\$ (114,140)</u></b>	<b><u>\$ (407)</u></b>	<b><u>\$ (114,547)</u></b>	<b><u>\$ (112,248)</u></b>
<b>Total - SCE&amp;G</b>	<b><u>\$ (114,140)</u></b>	<b><u>0</u></b>	<b><u>\$ (114,140)</u></b>	<b><u>\$ (111,832)</u></b>

South Carolina Electric & Gas Company  
Working Capital Investment  
Test Year Ended September 30, 2009  
Docket No. 2009-489-E  
000's Omitted

		<u>Total Electric</u>			<u>Retail Electric</u>	
	<u>Regulatory Per Books</u>	<u>ORS Accounting &amp; Pro Forma Adjustments</u>	<u>After Accounting &amp; Pro Forma Adjustments</u>	<u>Retail Per Books</u>	<u>ORS Accounting &amp; Pro Forma Adjustments</u>	<u>After Accounting &amp; Pro Forma Adjustments</u>
<b>Operating &amp; Maintenance Expenses</b>	\$ 1,270,361	\$ 6,163	\$ 1,276,524	\$ 1,217,686	\$ 15,271	\$ 1,232,957
Less: Purchased Power Expense **	226,360	28,154	254,514	215,684	27,075	242,759
Nuclear Fuel Expense	26,929	0	26,929	25,590	0	25,590
	1,017,072	(21,991)	995,081	976,412	(11,804)	964,608
1/8 of O&M Expenses (Less Fuel):	0.125	0.125	0.125	0.125	0.125	0.125
<b>Working Cash</b>	127,134	(2,749)	124,385	122,052	(1,475)	120,576
Prepayments	47,475	0	47,475	47,153	0	47,153
<b>Total Investor Advanced Funds</b>	174,609	(2,749)	171,860	169,205	(1,475)	167,730
Less: Customer Deposits	(28,692)	(35)	(28,727)	(28,692)	(35)	(28,727)
Average Tax Accruals	(74,306)	0	(74,306)	(73,531)	0	(73,531)
Nuclear Refueling Cycle	(6,792)	900	(5,892)	(6,470)	857	(5,613)
Injuries and Damages	(4,863)	0	(4,863)	(4,739)	0	(4,739)
Unclaimed Funds	0	(488)	(488)	0	(488)	(488)
<b>Total Working Capital - ORS</b>	<u>\$ 59,956</u>	<u>\$ (2,372)</u>	<u>\$ 57,584</u>	<u>\$ 55,773</u>	<u>\$ (1,141)</u>	<u>\$ 54,632</u>
<b>Total Working Capital - Company</b>	<u>\$ 59,956</u>	<u>\$ 1,501</u>	<u>\$ 61,457</u>	<u>\$ 55,773</u>	<u>\$ 2,684</u>	<u>\$ 58,457</u>

\*\* Includes the removal of Genco Fuel since working capital is included on the Genco fuel invoices.

**South Carolina Electric & Gas Company**  
**Weighted Cost of Capital**  
**Retail Electric Operations**  
**For the Test Year Ended September 30, 2009**  
**Docket No. 2009-489-E**  
(000's Omitted)

Description	Capital Structure	Ratio	Retail Per Books				After ORS Accounting and Pro Forma Adjustments				After Company's Proposed Increase			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt*	\$ 2,790,425	47.04%	\$ 2,400,537	6.14%	2.89%	\$ 147,393	\$ 2,238,794	6.14%	2.89%	\$ 137,462	\$ 2,238,794	6.14%	2.89%	\$ 137,462
Common Equity*	3,141,459	52.96%	2,702,646	7.62%	4.03%	205,813	2,520,548	8.83%	4.67%	222,515	2,520,548	13.66%	7.23%	344,380
Totals	\$ 5,931,884	100.00%	\$ 5,103,183		6.92%	\$ 353,206	\$ 4,759,342		7.56%	\$ 359,977	\$ 4,759,342		10.12%	\$ 481,842

\* Includes additional \$133.8 million in equity and \$150 million in debt which occurred after the close of the test year.

**South Carolina Electric & Gas Company**  
**Computation of Revenue Requirement**  
**For the Test Year Ended September 30, 2009**  
**Docket No. 2009-489-E**  
**(000's Omitted)**

Line No.	Description	Per Stipulation
1	Jurisdictional Rate Base	\$ 4,759,342
2	Required Rate of Return	<u>8.56%</u>
3	Required Return	407,400
4	Actual Return Earned	<u>359,977</u>
5	Required Increase to Return	47,423
6	Factor to Remove Customer Growth	<u>1.0034120</u>
7	Additional Return Required from Revenue Increase	47,262
8	Composite Tax Factor	<u>0.61471</u>
9	Additional Revenue at 10.7% ROE	<u><u>\$ 76,885</u></u>

**Weighted Cost of Capital**

<u>Description</u>	<u>Capital Structure</u>	<u>Ratio</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>
Long-Term Debt	\$2,790,425,000	47.04%	6.14%	2.89%
Common Equity	3,141,458,601	52.96%	<u>10.70%</u>	5.67%
Totals	<u><u>\$5,931,883,601</u></u>	<u>100.00%</u>		<u><u>8.56%</u></u>